

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Manistique	County Schoolcraft
Fiscal Year End 6-30-07	Opinion Date 10-31-07	Date Audit Report Submitted to State 11-20-07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

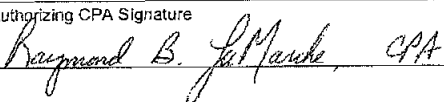
YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
- ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
- ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
- ☒ ☐ The local unit has adopted a budget for all required funds.
- ☒ ☐ A public hearing on the budget was held in accordance with State statute.
- ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
- ☐ ☒ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
- ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
- ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
- ☐ ☒ The local unit is free of repeated comments from previous years.
- ☒ ☐ The audit opinion is UNQUALIFIED.
- ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
- ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
- ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-786-3111		
Street Address 901 Ludington Street		City Escanaba	State MI	Zip 49829
Authorizing CPA Signature 		Printed Name Raymond B. LaMarche, CPA		License Number 1101025531

CITY OF MANISTIQUE, MICHIGAN

BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Laura L. Schwalbach, CPA

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Manistique
Manistique, Michigan 49854

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Manistique, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Manistique, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Manistique, Michigan as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2007, on our consideration of the City of Manistique, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison information on pages 3 through 14 and 64 through 68, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Manistique, Michigan basic financial statements. The combining nonmajor fund financial statements are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company P.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants

October 31, 2007

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

This discussion and analysis of City of Manistique's financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2007. Please read it in conjunction with the City's financial statements, which begin on page 15.

FINANCIAL HIGHLIGHTS

- The City's net assets were reported at \$12,122,760. Net assets for our business-type activities were \$10,027,576, while net assets in our governmental activities were \$2,095,184. We are now tracking all assets over \$5,000 (the limit set by Council with recommendation from Management) in a new depreciation program which will allow us to account for depreciation and be able to predict and budget more readily for this non-cash expense, a cost that ultimately affects our bottom line and Fund Balance, therefore becoming an important part of the accounting equation.
- The City's expenses for the year totaled \$5,761,600, a decrease of \$248,242 (4.1%) over 2006. Revenues from all sources were \$6,454,663, a decrease of \$612,287 (8.6%). Revenues in the Water and Wastewater Utilities increased by 5.4%. Expenses in Wastewater went from \$1,060,014 to \$1,136,710, a difference of \$76,696 (7.2%). Expenses in Water went from \$950,982 to \$971,296, a difference of \$20,314 (2.1%).
- Sales in Ambulance increased by \$66,788 (18.3%). This resulted from a record number of runs and a decrease in write-offs. We requested that Rampart verify write-offs with us before turning over large amounts that we might deem collectible to Northern Service Bureau. Expenses increased by \$2,151 (.01%).
- In the City's business type activities, total revenues were \$2,538,234. Business-type activity revenues were 39.32% as a percentage of total revenues compared to 38.76% the previous year. This came most likely as the result of a record number of ambulance runs and an increase in water and sewer rates. Business type expenses on the other hand calculated at 44.38%, where last year they were 40.92% of total expenses. Water and Wastewater have been using DPW services when at all possible. This has increased their expenses for labor, and this movement has decreased the expenses in the DPW departments in the General Fund. This creates a win-win situation for both Water, Wastewater, and the General Fund, as it obviously saves the General Fund, while Water and Wastewater save substantially over the cost of contracted help. This could create a potential problem for Water and Wastewater though unless they begin to recoup enough revenue to completely cover these costs and also fund their depreciation. Council and Management raised rates for FY 2007. Raising rates will most certainly help the amount of retained earnings lost each year to depreciation, but it will not completely correct the problem. The City of Manistique has a real area of concern in old lines that need replacing. Underground infrastructure and replacement have been brought to the public's attention, with an emphasis placed on the need for the base fee in water and wastewater. Getting the public educated to the importance of required reserves and sufficient operating capital was extremely difficult. The City Council and Management took quite a political beating on this issue. It is not an issue that will go away soon as we will need to address this rate yearly and hopefully not allow ourselves to again freeze rates at the detriment to the system.

- The City implemented its webpage, first as manistique.info, and then as both manistique.info and cityofmanistique.com. We now have our voter's registration, cemetery records from Fairview, city officials listing, and much more online. While not yet completed, the service over time should prove to be an asset to the community and a definite timesaver to our employees. All City departments are now connected to high-speed Internet services. Many reports and forms are now transmitted through the Internet. The service has also allowed the City to avoid the cost of dedicated phone lines for some utility functions.
- The General Fund finished the year with a positive unrestricted fund balance of \$261,146 compared to last year's balance \$189,315. This was after revenues of \$2,167,965 compared to \$2,410,622 in 2006, and expenditures of \$2,107,423 compared to expenditures of \$2,346,866 in 2006.
- The net assets for the governmental activities were \$2,095,184 in 2007 compared to \$1,448,102 in 2006. The CDBG downtown project still played a large part in the increase of net assets. Decreased liabilities and paid off loans played a part of this increase. This was our third year to implement GASB 34, the tracking of assets. This will be interesting to follow as we watch our depreciation in comparison with purchase of new capital assets and infrastructure improvements. Again, this is an area where depreciation plays a huge part in the value of the City as a whole. This value also serves as an indicator of how we look to lending institutions and our other creditors and determines what kind of interest rates we obtain from them when we bond or borrow.

USING THIS REPORT

This annual report consists of financial statements. The Statement of Net Assets and Statement of Activities (on pages 15 and 16) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 17. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statement provides financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of government.

The City has included the Manistique Housing Commission as a discretely presented component unit as determined by GASB Statement 14, as amended by GASB Statement 39. The Manistique Housing Commission issues its own separately audited financial statement which may be obtained at 400 East Lake Shore Drive, Manistique, Michigan 49854.

Reporting the City as a whole

Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 7. One of the most important questions asked about a city's finances is "Is the City as a whole better off or in worse condition as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities reports information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's *net assets* and changes in them. You can think of the City's net assets- the difference between assets and liabilities- as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall financial health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two categories of activities:

- Governmental activities – Most of the City's basic services are reported here including public safety, public works, parks and recreation, and general administration. Property taxes, state shared revenues and state and federal grants fund the majority of these activities.
- Business-type activities – The City charges a fee to customers to help cover all or most of the costs of certain services it provides. The City's Water, Wastewater, Ambulance, and Recreation funds are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analysis of the City's Major Funds begins on page 11. The fund financial statements begin on page 17 and provide detailed information on the most significant funds – not the City as a whole. Some funds are required to be established by State law, and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes or to show that the City is meeting legal requirements for certain taxes, grants and other money (such as grants received from the U.S. Department of Housing and Urban development). The City's two kinds of funds *governmental* and *proprietary* – use different accounting methods.

- *Governmental funds* – Most of the City's services are reported in governmental funds, which focus on how money flows into and out of those funds, and the balances that are left at year-end available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term* view of the City's general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and Statement of Activities) and governmental *funds* in a reconciliation that follows the fund financial statements.
- *Proprietary funds* - When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities that we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.

The City as a Trustee

The City is the trustee, *or fiduciary*, of funds that are collected for other agencies and held for periodic payment to those agencies. The City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 29. We exclude these funds from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

The City as a Whole

The City's net combined assets were \$12,122,760.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities	
	2007	2006	2007	2006
Current and other assets	\$ 1,572,440	\$ 1,824,979	\$ 1,479,186	\$ 1,363,003
Capital assets (net)	4,555,776	4,592,359	13,717,802	13,730,072
Total Assets	<u>\$ 6,128,216</u>	<u>\$ 6,417,338</u>	<u>\$ 15,196,988</u>	<u>\$ 15,093,075</u>
Long-term debt outstanding	\$ 3,718,561	\$ 4,245,220	\$ 4,917,025	\$ 4,996,644
Other liabilities	314,471	724,016	252,387	114,836
Total Liabilities	<u>4,033,032</u>	<u>4,969,236</u>	<u>5,169,412</u>	<u>5,111,480</u>
Net Assets:				
Invested in capital assets, net of related debt	3,212,215	2,797,139	8,834,934	8,733,428
Restricted assets:				
Expendable	380,613	384,033	-	-
Nonexpendable	160,182	158,982	-	-
Unrestricted	(1,657,826)	(1,892,052)	1,192,642	1,248,167
Total net assets	<u>\$ 2,095,184</u>	<u>\$ 1,448,102</u>	<u>\$ 10,027,576</u>	<u>\$ 9,981,595</u>

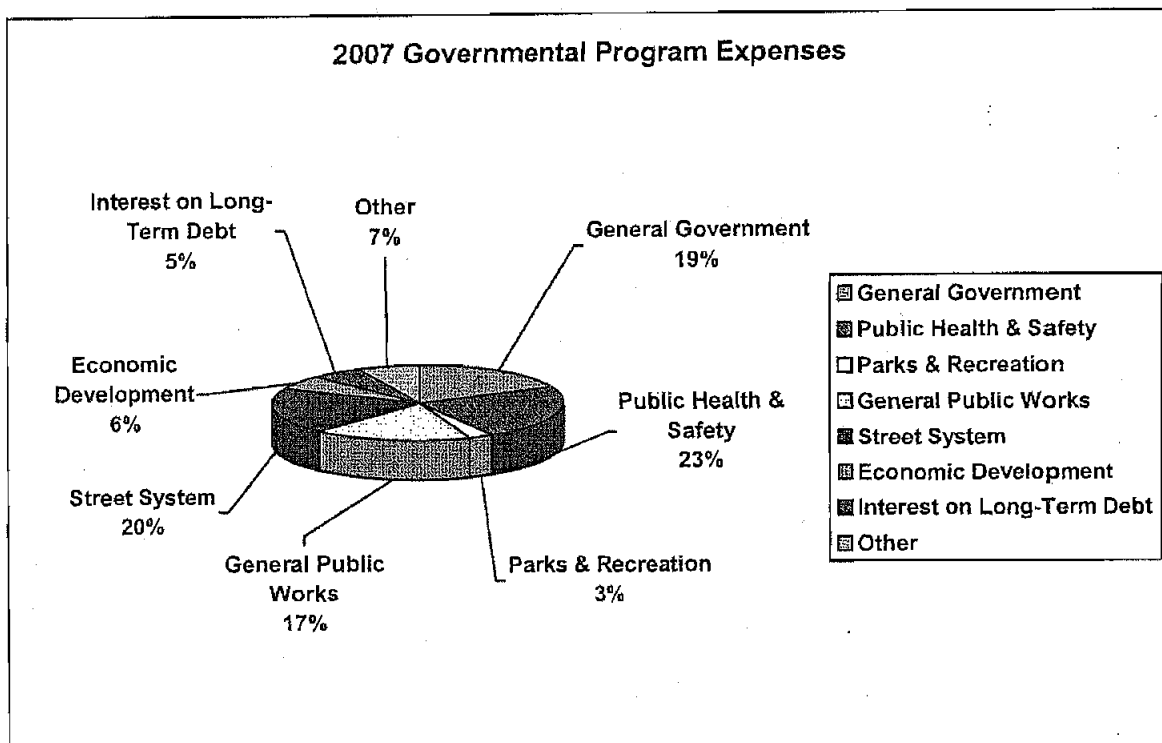
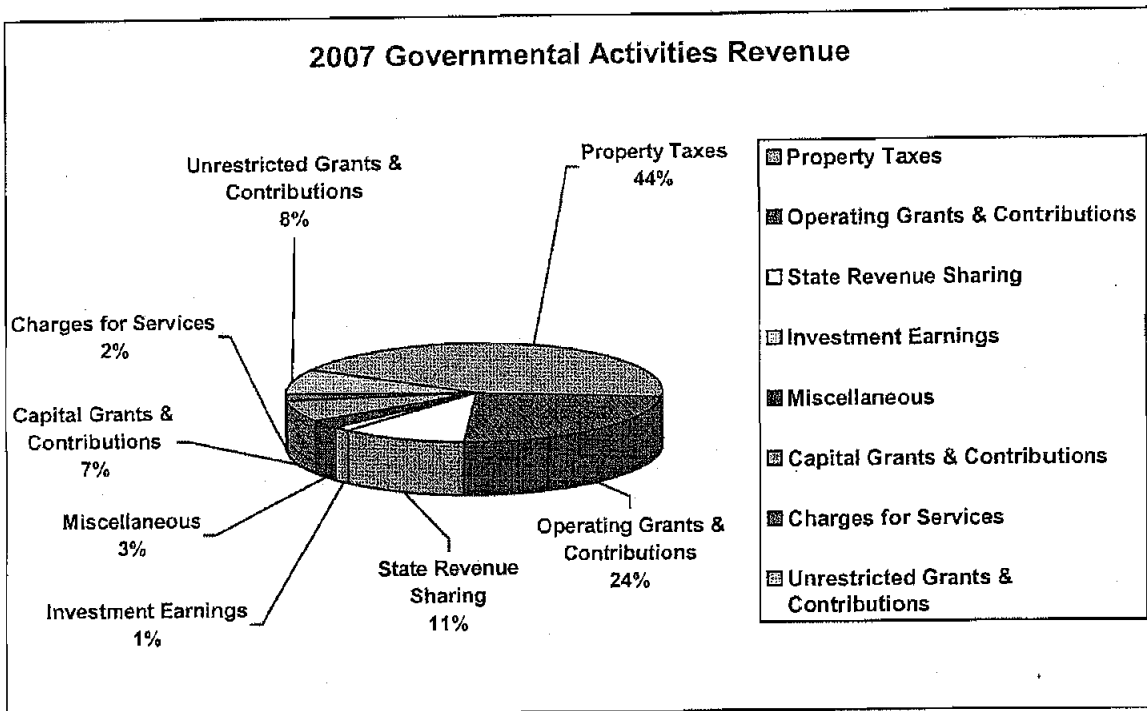
Net assets of the City's governmental activities stood at \$2,095,184. Total assets stood at \$6,128,216. The ratio of assets to liabilities stood at 1.52 in 2007 compared to 1.29. This will serve as our fourth year point in tracking this number, a good indicator of our overall financial health. The City had a net decrease in long-term debt of \$526,659 and a decrease of \$936,204 in total liabilities. The decrease in liabilities is primarily due to the repayment of existing debt as well as a decrease in accounts payable from 2007 to 2008.

Net assets in our business-type activities stood at \$10,027,576 in 2007. Total assets were at \$15,196,988. Liabilities stood at \$5,169,412 in 2007. Unrestricted net assets ended the FY at \$1,192,642 in 2007. In summary, the net assets of the business lines became a little less liquid, but investments in infrastructure will pay dividends in the future.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities	
	2007	2006	2007	2006
Revenues:				
Program Revenues:				
Charges for services	\$ 81,569	\$ 79,747	\$ 2,351,884	\$ 2,174,794
Operating grants & contributions	942,687	952,493	-	-
Capital grants & contributions	273,917	767,082	172,090	564,450
General Revenues:				
Property taxes	1,708,342	1,664,788	-	-
State revenue sharing	426,694	439,588	-	-
Other grants & contributions	318,103	256,507	-	-
Unrestricted investment earnings/interest income	53,901	52,282	14,260	14,632
Miscellaneous/Other	111,216	100,587	-	-
Total Revenues	<u>3,916,429</u>	<u>4,313,074</u>	<u>2,538,234</u>	<u>2,753,876</u>
Program Expenses:				
General government	600,386	579,009	-	-
Public health & safety	738,142	682,267	-	-
Parks & recreation	87,122	77,445	-	-
General public works	557,635	978,475	-	-
Street system	635,881	616,068	-	-
Economic development	188,194	179,396	-	-
Sanitary landfill	22,239	35,170	-	-
Other	204,386	222,043	-	-
Interest on long-term debt	170,362	180,819	-	-
Ambulance	-	-	357,671	355,520
Recreation building	-	-	91,576	92,634
Waste water utility	-	-	1,136,710	1,060,014
Water utility	-	-	971,296	950,982
Total Expenses	<u>3,204,347</u>	<u>3,550,692</u>	<u>2,557,253</u>	<u>2,459,150</u>
Excess (deficiency) before transfers and contributions	712,082	762,382	(19,019)	294,726
Transfers	<u>(65,000)</u>	<u>(65,000)</u>	<u>65,000</u>	<u>65,000</u>
Increase (decrease) in net assets	647,082	697,382	45,981	359,726
Net assets - beginning	<u>1,448,102</u>	<u>750,720</u>	<u>9,981,595</u>	<u>9,621,869</u>
Net assets - ending	<u>\$ 2,095,184</u>	<u>\$ 1,448,102</u>	<u>\$ 10,027,576</u>	<u>\$ 9,981,595</u>

Governmental Activities



The City's total revenues were \$6,454,663 in 2007. The cost of all programs and services was \$5,761,600 for 2007. For 2007, the difference between revenue and expenses was \$693,063.

Governmental Activities

Revenues for the City's governmental activities totaled \$3,916,429 while expenses totaled \$3,204,347.

Table three below reflects the cost of each of the City's five largest activities; Public Safety, Street Systems, Parks and Recreation, Public works, and General Government- as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the taxpayers.

Table 3
Government Activities

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
Public health & safety	\$ 738,142	\$ 682,267	\$ 590,396	\$ 417,061
Street systems	635,881	616,068	(58,250)	140,254
Economic development	188,194	179,396	115,694	79,896
General public works	557,635	978,475	412,634	250,051
General government	600,386	579,009	400,626	387,767
Totals	<u>\$ 2,720,238</u>	<u>\$ 3,035,215</u>	<u>\$ 1,461,100</u>	<u>\$ 1,275,029</u>

Total costs of services increased, yet net costs of services declined as a result of tighter budget controls and reimbursement from the CDBG grant. There were a couple factors that mitigated against attempts to control costs. We were hit with higher cost increases in insurance, such as Blue Cross Blue Shield. We have tried to curtail this cost by joining the MEBS insurance plan. It provides the employee with the benefits of their prior PPO1 policy, but in fact the City is carrying a higher deductible policy, PPO12, and is paying the difference to MEBS. We are continuing to monitor what savings this will bring, and are exploring HSA's as an alternative. If not as expected, health insurance could continue to be an area of focus in future budget planning. In the Major and Local Street Funds, consecutive weekend snowstorms in the winter of 2007 ran up snow removal costs. Major and Local both had sufficient fund balances to accommodate these expenses, and we were glad that we had left them with a surplus.

Business-Type Activities

Revenues for the City's business-type activities totaled \$2,538,234, down from \$2,753,876 in 2006 (7.8%). Most of the decrease occurred in Water and Sewer, because of substantially more capital contributes in 2006 than in 2007.

THE CITY'S FUNDS

As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on page 17 & 18) reported a combined fund balance of \$1,402,472, an increase of \$173,936 from 2006. This was due primarily to an increase in assets of \$116,853 (some of this due to General Fund increasing their fund balance, as well as the Major and Local Street Funds).

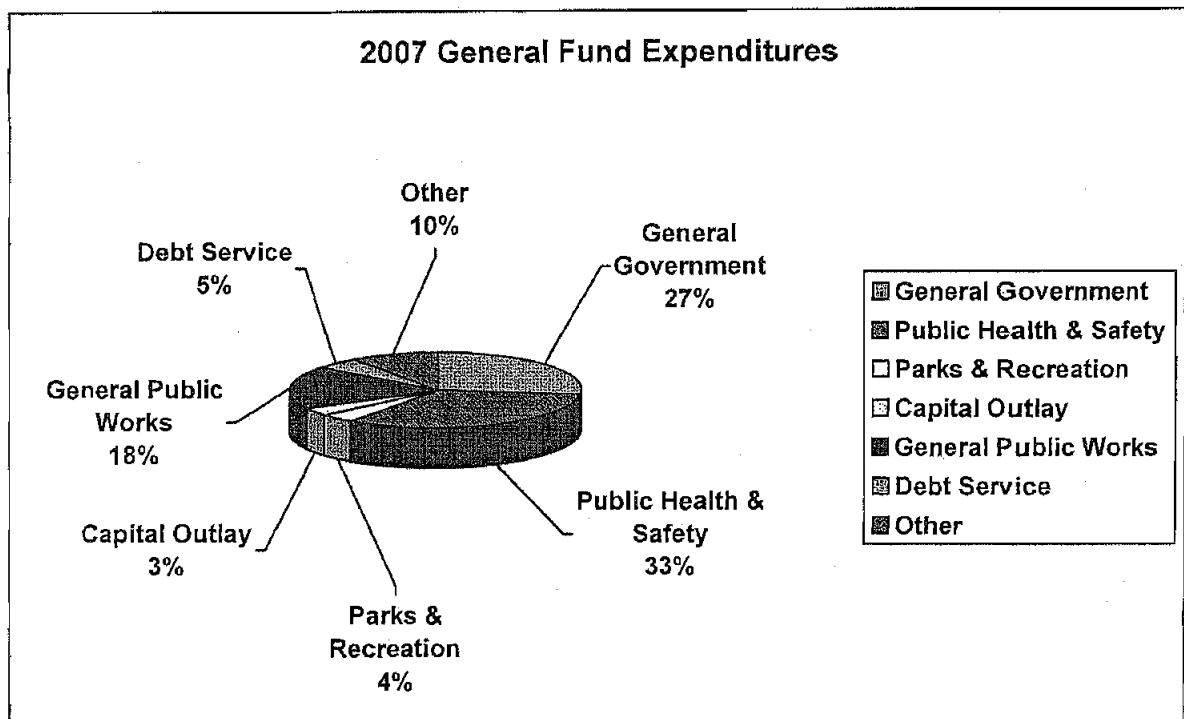
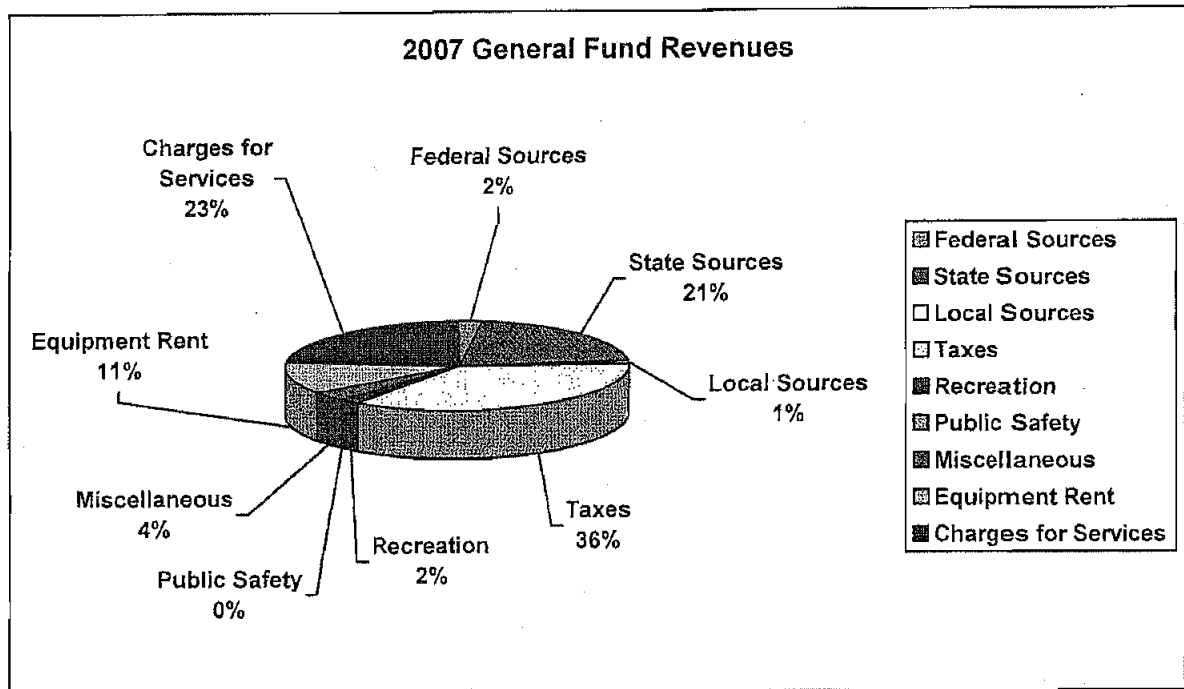
General Fund Budgetary Highlights

Over the course of the year, the budget was amended to recognize known changes to revenue or expenses. As usual, revenue figures were easiest to project, with the final revenue number of \$2,167,965 just \$9,447 over amended budget. Expenses were a little harder to predict, given variables such as winter weather, and costs for health insurance. The final expenditure number of \$2,107,423 was under the revised expenditure estimate of \$2,150,183. Over the next year, we will concentrate on building up fund balances in the General Fund to absorb overruns in the future.

The final revenue number was \$2,167,965, and the final fund balance for General Fund was \$280,400, which included the unrestricted amount of \$261,146, the rest being restricted for inventory, donations, etc. Equipment rent that came in above appropriated amounts helped to retain our fund balance and add to it. One factor that caused cost overruns was weekend snowstorms that required extensive overtime for winter maintenance. We were fortunate to have enough fund balance in the Major and Local Streets funds to cover this extremely high expense in those funds and to bring it back into the General Fund as equipment rent revenue. Keeping higher fund balances in the Major and Local Street funds proved to be a wise move, and we will continue to monitor those funds and plan again accordingly. This will become easier to do as the economy improves.

All employees worked together to reduce expenses in their departments. When we got into March and April, Mother Nature decided to help us along a bit, dumping a significant amount of snow down on our street systems. Thankfully we had enough in Major and Local to cover these expenses, which in turn took the burden of winter salaries and fringes off General Fund. We finished the year with a positive fund balance, at which point we breathed a sigh of relief. Our goal now is to increase the fund balance to \$250,000, the point at which we will feel more comfortable. It is our understanding that the General Fund should have a fund balance or cushion of approximately 10-15% of expenditures, which would be approximately \$250,000. The City is very fortunate to have personnel willing to work with us, and for that we say **"Thank You"** to them.

General Fund



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2007, the City had \$18,273,578, net of accumulated depreciation, invested in a variety of capital assets including public safety equipment, buildings, parks, roads, water and wastewater. (See table 4 below)

Table 4
Capital Assets at Year-End
(net of accumulated depreciation)

	Governmental Activities		Business-Type Activities	
	2007	2006	2007	2006
Land	\$ 125,807	\$ 100,331	\$ 2,139	\$ 2,139
Land Improvements	97,865	47,979	58,996	58,996
Buildings	831,932	785,265	888,032	885,613
Machinery & Equipment	529,924	523,972	1,329,921	1,144,311
Vehicles	661,909	623,110	-	-
Infrastructure- road system	5,871,355	5,737,819	-	-
Distribution/collection system	-	-	21,200,533	20,832,605
Accumulated Depreciation	(3,563,016)	(3,226,117)	(9,761,819)	(9,193,592)
Total	<u>\$ 4,555,776</u>	<u>\$ 4,592,359</u>	<u>\$ 13,717,802</u>	<u>\$ 13,730,072</u>

This is the fourth year to list capital assets for the governmental activities as we are implementing the new regulation of GASB 34.

DEBT

At year-end the City had a total \$8,081,429 in long-term debt obligations. This is a net decrease of \$620,435 in total long-term debt. The State of Michigan limits the amount of general obligation debt that municipalities can issue to 10% of the current equalized valuation, including TIF valuations, within the City's corporate limits. The City's outstanding general obligation debt of \$3,070,000 is well below the 10% limit of just over \$5,500,000.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
General obligation bonds/ notes(backed by the City)	\$ 128,561	\$ 230,220	\$ 95,868	\$ 52,644	\$ 224,429	\$ 282,864
Revenue bonds and notes (backed by specific tax and fee revenues)	3,070,000	3,475,000	4,787,000	4,944,000	7,857,000	8,419,000
Totals	<u>\$ 3,198,561</u>	<u>\$ 3,705,220</u>	<u>\$ 4,882,868</u>	<u>\$ 4,996,644</u>	<u>\$ 8,081,429</u>	<u>\$ 8,701,864</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials will consider many factors when setting the fiscal year budget, tax rates and fees that will be charged for business type activities. One of those factors is the economy. While it seems apparent that an economic recovery is underway and accelerating, it may take years to replace some of the economic vigor that was lost during the recent recession. During this period however, Manistique has experienced growth in commercial development. This development will allow the continued growth in service type jobs, but some of these will be at higher wages than in the past. Further, development is continuing to focus on Manistique's waterfront. This growth will affect revenues for the years coming.

The cost of living in Manistique is below the national and State average, but real estate values continue to climb. The growth of other costs continue to rise at the national inflation rate or lower. These factors were taken into account when adopting the 2007 budget. However, the specter of continued decreases in State shared revenues still exists, and cost control will remain a priority. Cost cuts in health insurance expenses for all divisions by joining the MEBS plan will hopefully help with cost containment. We will continue to monitor all costs, explore health savings accounts, and will make adjustments where necessary.

For our business type activities, continued slow growth is forecast in water and wastewater. Ambulance remains a stabilizing force in the enterprise funds as the City supplies a need for the community and a steady income for the fund. Recreation seems to be the area that has struggled in the past and this year remains no exception. The City of Manistique has received a DNR grant and a new central park is currently under construction. The DDA has just received a Waterways grant to make needed improvements at the City marina. The city has received a CDBG grant that is covering water, sewer, and street improvements for four blocks of Range Street. The city has also received task force revenue that is currently funding the improvements to Lakeside Road.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and customers, as well as investors and creditors with a general overview of the City's finances and to show the City's accountability for the revenues it receives. If you have questions about this report or need additional information, contact the City Treasurer, or the City Manager at Manistique City Hall, 300 North Maple St, P.O. Box 515, Manistique, Michigan, 49854.

CITY OF MANISTIQUE, MICHIGAN
STATEMENT OF NET ASSETS
June 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Manistique Housing Commission
ASSETS				
Current assets:				
Cash and cash equivalents				
Restricted	\$ 172,911	\$ 354,862	\$ 527,773	\$ -
Unrestricted	1,039,991	483,637	1,523,628	181,315
Investments	-	-	-	205,550
Receivables:				
Accounts	21,889	97,365	119,254	7,185
Utilities	-	336,731	336,731	-
Delinquent taxes	8,278	-	8,278	-
Cemetery	300	-	300	-
Internal balances	(198,442)	198,442	-	-
Due from other governmental units	516,681	-	516,681	-
Prepays	-	-	-	15,140
Inventory	10,832	8,149	18,981	-
Total current assets	<u>1,572,440</u>	<u>1,479,186</u>	<u>3,051,626</u>	<u>409,190</u>
Noncurrent assets:				
Capital assets (net)	<u>4,555,776</u>	<u>13,717,802</u>	<u>18,273,578</u>	<u>676,529</u>
Total assets	<u>\$ 6,128,216</u>	<u>\$ 15,196,988</u>	<u>\$ 21,325,204</u>	<u>\$ 1,085,719</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 46,494	\$ 164,681	\$ 211,175	\$ 9,905
Accrued payroll	14,258	10,320	24,578	-
Accrued interest	28,283	53,288	81,571	-
Due to other governmental units	80,797	-	80,797	-
Accrued liabilities	-	-	-	35,041
Deferred revenue	-	-	-	-
Customer deposits	-	9,459	9,459	-
Compensated absences	36,160	14,639	50,799	-
Bonds payable	430,000	158,000	588,000	-
Notes payable	46,576	30,801	77,377	-
Landfill postclosure costs	20,000	-	20,000	-
Total current liabilities	<u>702,568</u>	<u>441,188</u>	<u>1,143,756</u>	<u>44,946</u>
Noncurrent liabilities:				
Compensated absences	108,479	34,157	142,636	-
Bonds payable	2,640,000	4,629,000	7,269,000	-
Notes payable	81,985	65,067	147,052	-
Landfill postclosure costs	500,000	-	500,000	-
Other	-	-	-	11,446
Total noncurrent liabilities	<u>3,330,464</u>	<u>4,728,224</u>	<u>8,058,688</u>	<u>11,446</u>
Total liabilities	<u>\$ 4,033,032</u>	<u>\$ 5,169,412</u>	<u>\$ 9,202,444</u>	<u>\$ 56,392</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 3,212,215	\$ 8,834,934	\$ 12,047,149	\$ 676,529
Restricted for:				
Expendable:				
Donated projects	108	-	108	-
Sanitary landfill	380,505	-	380,505	-
Nonexpendable:				
Cemetery perpetual care	160,182	-	160,182	-
Unrestricted	<u>(1,657,826)</u>	<u>1,192,642</u>	<u>(465,184)</u>	<u>352,798</u>
Total net assets	<u>\$ 2,095,184</u>	<u>\$ 10,027,576</u>	<u>\$ 12,122,760</u>	<u>\$ 1,029,327</u>

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Primary Government		
				Capital Grants and Contributions	Governmental Activities	Business-type Activities
Primary government:						
Governmental activities:						
General government	\$ 600,386	\$ 8,972	\$ 190,788	\$ -	\$ (400,626)	\$ -
Public health and safety	738,142	23,485	75,344	48,917	(590,396)	-
Parks and recreation	87,122	38,935	-	-	(48,187)	-
General public works	557,635	10,177	134,924	-	(412,534)	-
Street system	635,881	-	469,131	225,000	58,250	-
Economic development	188,194	-	72,500	-	(115,694)	-
Sanitary landfill	22,239	-	-	-	(22,239)	-
Other	204,386	-	-	-	(204,386)	-
Interest on long-term debt	170,362	-	-	-	(170,362)	-
Total governmental activities	3,204,347	81,569	942,687	273,917	(1,906,174)	-
Business-type activities:						
Ambulance	337,671	430,886	-	4,344	-	77,559
Recreation Building	91,576	73,671	-	21,230	-	3,325
Waste water utility	1,136,710	894,077	-	73,358	-	(169,275)
Water utility	971,296	953,250	-	73,158	-	55,112
Total business-type activities	2,537,253	2,351,884	-	172,090	(33,279)	-
Total primary government	\$ 5,761,600	\$ 2,433,453	\$ 942,687	\$ 446,007	(1,906,174)	(1,939,453)
Component Unit:						
Manistique Housing Commission	\$ 605,540	\$ 140,334	\$ 302,488	\$ 12,410	-	(150,308)
General revenues:						
Property taxes					1,523,893	-
Property taxes - restricted for sanitary landfill					184,449	-
State revenue sharing					426,694	-
Grants and contributions not restricted to specific programs					318,103	-
Contributions to permanent fund					1,200	-
Unrestricted investment earnings					53,901	12,529
Miscellaneous					110,016	20,926
Transfers					(65,000)	-
Total general revenues and transfers					2,553,256	33,455
Changes in net assets					647,082	(116,853)
Net assets - beginning					1,448,102	1,146,180
Net assets - ending					\$ 2,095,184	\$ 1,029,327

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	General Fund	Major Street	Local Street
ASSETS			
Cash and equivalents:			
Restricted	\$ 12,729	\$ -	\$ -
Unrestricted	334,781	157,996	45,578
Receivables:			
Accounts	1,868	-	-
Delinquent taxes	7,316	-	-
Cemetery	300	-	-
Due from other funds	34,787	-	-
Due from other governmental units	232,472	32,669	11,934
Inventory	10,832	-	-
	<u>\$ 635,085</u>	<u>\$ 190,665</u>	<u>\$ 57,512</u>
Total assets			
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 28,694	\$ -	\$ -
Accrued payroll	12,395	727	67
Due to other funds	225,363	4,413	2,203
Due to other governmental units	80,797	-	-
Deferred revenue	7,436	-	-
	<u>354,685</u>	<u>5,140</u>	<u>2,270</u>
Total liabilities			
Fund balances:			
Reserved for:			
Inventory	10,832	-	-
Donated projects	108	-	-
Sanitary landfill	8,313	-	-
Cemetery perpetual care	-	-	-
Unreserved, undesignated	261,147	185,525	55,242
Unreserved, reported in non-major:			
Capital project fund	-	-	-
	<u>280,400</u>	<u>185,525</u>	<u>55,242</u>
Total fund balances			
Total liabilities and fund balances	<u>\$ 635,085</u>	<u>\$ 190,665</u>	<u>\$ 57,512</u>

See accompanying notes to financial statements.

DDA Fund	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 160,182	\$ 172,911
102,039	-	399,597	1,039,991
20,021	-	-	21,889
-	-	962	8,278
-	-	-	300
-	-	-	34,787
569	-	239,037	516,681
-	-	-	10,832
<u>\$ 122,629</u>	<u>\$ -</u>	<u>\$ 799,778</u>	<u>\$ 1,805,669</u>
\$ 2,267	\$ -	\$ 15,533	\$ 46,494
1,069	-	-	14,258
1,064	-	186	233,229
-	-	-	80,797
20,021	-	962	28,419
<u>24,421</u>	<u>-</u>	<u>16,681</u>	<u>403,197</u>
-	-	-	10,832
-	-	-	108
-	-	-	8,313
-	-	160,182	160,182
98,208	-	-	600,122
-	-	622,915	622,915
<u>98,208</u>	<u>-</u>	<u>783,097</u>	<u>1,402,472</u>
<u>\$ 122,629</u>	<u>\$ -</u>	<u>\$ 799,778</u>	<u>\$ 1,805,669</u>

CITY OF MANISTIQUE, MICHIGAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2007

Total fund balances for governmental funds	\$ 1,402,472
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Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 125,807	
Land improvements	97,865	
Buildings	831,932	
Machinery and equipment	529,924	
Vehicles	661,909	
Infrastructure - road system	5,871,355	
Accumulated depreciation	<u>(3,563,016)</u>	
Total capital assets		4,555,776

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets.

Accrued interest on long-term debt	\$ (28,283)	
Bonds payable	(3,070,000)	
Notes payable	(128,561)	
Landfill postclosure costs	(520,000)	
Compensated absences	<u>(144,639)</u>	(3,891,483)

Deferred revenue is reported as a liability on the balance sheet of the fund financial statements and has been recognized as revenue in the statement of activities has been removed from the statement of net assets.

	<u>28,419</u>
Total net assets of governmental activities	<u>\$ 2,095,184</u>

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007

	General Fund	Major Street	Local Street
REVENUES:			
Federal sources	\$ 48,917	\$ -	\$ -
State sources	451,942	345,856	86,024
Local sources	24,484	-	-
Taxes	764,144	-	-
Recreation	38,935	-	-
Public safety	1,725	-	-
Charges for services	503,272	-	-
Equipment rental	239,985	-	-
Interest income	18,838	5,081	2,492
Miscellaneous	75,723	-	-
	<u>2,167,965</u>	<u>350,937</u>	<u>88,516</u>
Total revenues			
EXPENDITURES:			
General government	570,581	-	-
Public health and safety	693,913	-	-
Parks and recreation	83,959	-	-
General public works	384,145	-	-
Street system	-	288,320	119,663
Economic development	-	-	-
Sanitary landfill	-	-	-
Capital outlay	69,552	-	-
Debt service:			
Principal	92,646	-	-
Interest and other charges	8,241	-	-
Other	204,386	-	-
	<u>2,107,423</u>	<u>288,320</u>	<u>119,663</u>
Total expenditures			
Excess revenues (expenditures)	<u>60,542</u>	<u>62,617</u>	<u>(31,147)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	25,000
Transfers out	(5,000)	(25,000)	-
	<u>(5,000)</u>	<u>(25,000)</u>	<u>25,000</u>
Total other financing sources (uses)			
Net changes in fund balances	55,542	37,617	(6,147)
Fund balances - beginning	224,858	147,908	61,389
Fund balances - ending	<u>\$ 280,400</u>	<u>\$ 185,525</u>	<u>\$ 55,242</u>

See accompanying notes to financial statements.

DDA Fund	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 48,917
-	-	225,000	1,108,822
-	-	66,767	91,251
759,749	-	184,449	1,708,342
-	-	-	38,935
-	-	-	1,725
-	-	-	503,272
-	-	-	239,985
16,022	-	11,468	53,901
46,402	-	1,200	123,325
822,173	-	488,884	3,918,475
-	-	-	570,581
-	-	-	693,913
-	-	-	83,959
-	-	-	384,145
-	-	-	407,983
188,194	-	-	188,194
-	-	39,191	39,191
62,368	-	295,601	427,521
-	350,000	55,000	497,646
-	84,104	89,675	182,020
-	-	-	204,386
250,562	434,104	479,467	3,679,539
571,611	(434,104)	9,417	238,936
-	434,104	251,509	710,613
(745,613)	-	-	(775,613)
(745,613)	434,104	251,509	(65,000)
(174,002)	-	260,926	173,936
272,210	-	522,171	1,228,536
\$ 98,208	\$ -	\$ 783,097	\$ 1,402,472

CITY OF MANISTIQUE, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

Net changes in fund balances - total governmental funds	\$	173,936
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$300,317) was less than depreciation expense (\$336,900).		(36,583)
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Repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets.

Principal repayments:		
Bond principal	405,000	
Note principal	101,659	
Landfill postclosure costs	20,000	526,659

Net change in deferred revenue which was recognized as revenue in the prior year in the statement of activities.		(2,046)
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Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	(26,542)	
Accrued interest on debt	11,658	(14,884)

Changes in net assets of governmental activities		\$ 647,082
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See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2007

	Ambulance Service	Waste Water Utility	Water Utility
ASSETS			
Current assets:			
Cash and cash equivalents:			
Restricted	\$ -	\$ 207,997	\$ 130,365
Unrestricted	200,806	113,784	108,644
Receivables:			
Accounts	97,365	-	-
Utilities	-	184,031	152,700
Due from other funds	-	225,363	-
Inventory	-	5,537	2,612
Total current assets	<u>298,171</u>	<u>736,712</u>	<u>394,321</u>
Noncurrent assets:			
Capital assets (net)	<u>176,035</u>	<u>6,606,796</u>	<u>6,202,954</u>
Total assets	<u>\$ 474,206</u>	<u>\$ 7,343,508</u>	<u>\$ 6,597,275</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 6,102	\$ 20,524	\$ 137,979
Accrued payroll	2,402	3,988	3,825
Accrued interest	-	44,794	8,494
Due to other funds	5,080	17,069	4,772
Customer deposits	-	2,690	6,769
Compensated absences	-	8,044	6,595
Bonds payable	-	125,000	33,000
Notes payable	14,000	-	-
Total current liabilities	<u>27,584</u>	<u>222,109</u>	<u>201,434</u>
Noncurrent liabilities:			
Compensated absences	-	18,770	15,387
Bonds payable	-	2,264,000	2,365,000
Notes payable	19,000	-	-
Total noncurrent liabilities	<u>19,000</u>	<u>2,282,770</u>	<u>2,380,387</u>
Total liabilities	<u>\$ 46,584</u>	<u>\$ 2,504,879</u>	<u>\$ 2,581,821</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 143,035	\$ 4,217,796	\$ 3,804,954
Unrestricted	<u>284,587</u>	<u>620,833</u>	<u>210,500</u>
Total net assets	<u>\$ 427,622</u>	<u>\$ 4,838,629</u>	<u>\$ 4,015,454</u>

See accompanying notes to financial statements.

Nonmajor Enterprise Fund <u>Recreation Building</u>	Total Enterprise Funds
\$ 16,500	\$ 354,862
60,403	483,637
-	97,365
-	336,731
-	225,363
-	8,149
<u>76,903</u>	<u>1,506,107</u>
 732,017	 13,717,802
<u>\$ 808,920</u>	<u>\$ 15,223,909</u>
 \$ 76	 \$ 164,681
105	10,320
-	53,288
-	26,921
-	9,459
-	14,639
-	158,000
16,801	30,801
<u>16,982</u>	<u>468,109</u>
 -	 34,157
-	4,629,000
46,067	65,067
<u>46,067</u>	<u>4,728,224</u>
 \$ 63,049	 \$ 5,196,333
 \$ 669,149	 \$ 8,834,934
76,722	1,192,642
<u>\$ 745,871</u>	<u>\$ 10,027,576</u>

CITY OF MANISTIQUE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2007

	Ambulance Service	Waste Water Utility	Water Utility
OPERATING REVENUES:			
Charges for services	\$ 428,053	\$ 874,952	\$ 943,811
Miscellaneous	2,833	19,125	9,439
Total operating revenue	430,886	894,077	953,250
OPERATING EXPENSES:			
Salaries	137,873	168,231	144,656
Fringe benefits	40,485	119,078	131,489
General administration	-	76,300	78,900
Supplies	5,322	29,842	57,382
Contracted services	10,209	45,704	11,878
Safety	-	447	1,346
Repairs and maintenance	10,479	55,769	71,562
Utilities	3,736	146,453	70,894
Communications	192	4,576	4,059
Printing and publishing	-	240	1,360
Transportation	12,642	3,258	3,218
Insurance	5,906	21,101	21,101
Conference and workshops	845	30	1,181
Equipment rental	-	-	-
Uncollectible accounts	87,774	-	-
Other services and charges	-	61,176	25,756
Depreciation	39,678	267,651	227,976
Miscellaneous	-	29,233	9,021
Total operating expenses	355,141	1,029,089	861,779
Operating income (loss)	75,745	(135,012)	91,471
NONOPERATING REVENUES (EXPENSES):			
Interest income	3,438	5,574	5,104
Interest expense	(2,530)	(107,621)	(109,517)
Total nonoperating revenue (expense)	908	(102,047)	(104,413)
Income (loss) before transfers and contributions	76,653	(237,059)	(12,942)
Capital contributions	4,344	73,358	73,158
Transfer in	-	60,000	-
Change in net assets	80,997	(103,701)	60,216
Total net assets - beginning	346,625	4,942,330	3,955,238
Total net assets - ending	\$ 427,622	\$ 4,838,629	\$ 4,015,454

See accompanying notes to financial statements.

Nonmajor Enterprise Fund	Total Enterprise Funds
<u>Recreation Building</u>	
\$ 57,383	\$ 2,304,199
16,288	47,685
<u>73,671</u>	<u>2,351,884</u>
17,350	468,110
1,340	292,392
-	155,200
3,190	95,736
1,083	68,874
-	1,793
2,991	140,801
23,762	244,845
369	9,196
173	1,773
-	19,118
2,448	50,556
-	2,056
150	150
-	87,774
-	86,932
30,992	566,297
7,584	45,838
<u>91,432</u>	<u>2,337,441</u>
<u>(17,761)</u>	<u>14,443</u>
144	14,260
(144)	(219,812)
<u>-</u>	<u>(205,552)</u>
(17,761)	(191,109)
21,230	172,090
5,000	65,000
<u>8,469</u>	<u>45,981</u>
<u>737,402</u>	<u>9,981,595</u>
<u>\$ 745,871</u>	<u>\$ 10,027,576</u>

CITY OF MANISTIQUE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2007

	Ambulance Service	Waste Water Utility	Water Utility
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 408,796	\$ 880,336	\$ 926,572
Payments to suppliers	(135,784)	(455,182)	(213,303)
Payments for wages and related benefits	(176,343)	(273,200)	(272,505)
Other receipts (payments)	(9,021)	9,319	(8,834)
Net cash provided (used) by operating activities	<u>87,648</u>	<u>161,273</u>	<u>431,930</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	-	60,000	-
Cash received (paid) on customer deposits	-	(173)	878
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>59,827</u>	<u>878</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of fixed assets	-	(188,796)	(344,000)
Capital contributions	4,344	73,358	73,158
Principal paid on debt instruments	(14,000)	(31,000)	(126,000)
Interest paid on debt instruments	(2,530)	(108,202)	(109,834)
Proceeds from debt issuance	-	-	-
Net cash provided (used) by capital and related financing activities	<u>(12,186)</u>	<u>(254,640)</u>	<u>(506,676)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earnings	<u>3,438</u>	<u>5,574</u>	<u>5,104</u>
Net increase (decrease) in cash and equivalents	78,900	(27,966)	(68,764)
Cash and equivalents, beginning of year	<u>121,906</u>	<u>349,747</u>	<u>307,773</u>
Cash and equivalents, end of year	<u>\$ 200,806</u>	<u>\$ 321,781</u>	<u>\$ 239,009</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 75,745	\$ (135,012)	\$ 91,471
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	39,678	267,651	227,976
Changes in assets and liabilities:			
(Increase) decrease in receivables	(22,090)	(13,741)	(26,678)
(Increase) decrease in prepaid expense	-	-	10,000
Increase (decrease) in accounts payable	1,321	18,947	134,355
Increase (decrease) in accrued payroll	2,015	14,109	3,640
Increase (decrease) in deferred revenue	-	-	-
Increase (decrease) in due to other funds	(9,021)	9,319	(8,834)
Net cash provided by operating activities	<u>\$ 87,648</u>	<u>\$ 161,273</u>	<u>\$ 431,930</u>

See accompanying notes to financial statements.

Nonmajor Enterprise Fund <u>Recreation Building</u>	Total Enterprise Funds
\$ 71,881	\$ 2,287,585
(42,551)	(846,820)
(18,585)	(740,633)
-	(8,536)
<u>10,745</u>	<u>691,596</u>
5,000	65,000
-	705
<u>5,000</u>	<u>65,705</u>
(21,231)	(554,027)
21,230	172,090
(2,776)	(173,776)
(144)	(220,710)
60,000	60,000
<u>57,079</u>	<u>(716,423)</u>
144	14,260
72,968	55,138
3,935	783,361
<u>\$ 76,903</u>	<u>\$ 838,499</u>
\$ (17,761)	\$ 14,443
30,992	566,297
-	(62,509)
-	10,000
(801)	153,822
105	19,869
(1,790)	(1,790)
-	(8,536)
<u>\$ 10,745</u>	<u>\$ 691,596</u>

CITY OF MANISTIQUE, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2007

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 1,549</u>
LIABILITIES	
Due to other units governmental units	<u>\$ 1,549</u>

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) REPORTING ENTITY

The City of Manistique was incorporated under the provision of Act 279, P. A. 1909, as amended (Home Rule City Act) and operates under a Council-Manager form of government. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, utility services, recreation, public improvements, planning and zoning, and general administrative services.

The City's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body establishing governmental accounting and financial reporting principles. The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements and Management's Discussion and Analysis*.

For financial reporting purposes, in conformance with GASB Statement 14, as amended by GASB Statement 39, the City's basic financial statements include the accounts of all City operations for which the City exercises oversight responsibility. In addition, State of Michigan, Department of Treasury pronouncements were considered in the determination process. The component units discussed below are included in the City's reporting entity because of the significance of their operational and financial relationships with the City.

Component Units – In conformity with U.S. generally accepted accounting principles, the financial statements of the component units have been included in the financial reporting entity as a blended component unit or as a discretely presented component unit.

Blended Component Unit – The City has one component unit in which the financial data has been blended with the primary government financial statement.

Downtown Development Authority – For financial reporting purposes the Downtown Development Authority is reported as if it were part of the City's operations because the City Council maintains budgetary control and its purpose is to promote and provide financial support to the downtown district.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Discretely Presented Component Unit – The component unit column includes the financial data of the Manistique Housing Commission, which is reported in a separate column to emphasize that they are legally separate from the City.

Manistique Housing Commission – The Housing Commission provides housing to low income and elderly citizens of the City of Manistique. The Housing Commission board is appointed by the City Council and therefore the Housing Commission is determined to be a component unit of the City of Manistique because of the control that the City can exercise over the Housing Commission activities. The Housing Commission, which has a fiscal year end of December 31, issues its own separately audited financial statements, which may be obtained at:

Manistique Housing Commission
400 East Lake Shore Drive
Manistique, Michigan 49854

The accounting policies of the City of Manistique conform to U.S. generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

(2) BASIS OF PRESENTATION

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the City as a whole. They include all funds of the City except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods or services provided by a given function and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

Fund Financial Statements:

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the City are considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

The City reports the following as major governmental funds in accordance with the above criteria:

The General Fund which is described below.

The Major Street Fund which is used to account for the repair, maintenance and construction of the City's major streets.

The Local Street Fund which is used to account for the repair, maintenance and construction of the City's local streets.

The DDA Fund which is used to account for the support and improvement of the City's downtown district.

The Debt Service Fund is used to account for debt service payments which are paid for from DDA Fund revenues.

The City reports the following as major enterprise funds in accordance with the above criteria:

The Ambulance Service Fund accounts for ambulance services provided to the citizens of the City of Manistique.

The Waste Water Utility Fund accounts for waste water services provided to the citizens of the City of Manistique.

The Water Utility Fund accounts for water services provided to the citizens of the City of Manistique.

The funds of the City are described below:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Debt Service Funds – Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Project Fund – The Landfill Construction Fund is one of the City's capital project funds and is used to account for the costs associated with capping and monitoring the landfill site as well as collecting tax revenue for the purpose of paying the annual debt service requirements of the landfill bond which was issued for the purpose of closing the landfill. The CDBG Downtown Project is the City's other capital project fund which accounts for the activity relating to a construction project in the City's downtown area.

Permanent Fund – The Cemetery Perpetual Care Fund is the City's only permanent fund. The principal portion of this fund must stay intact, but the interest earnings are used to provide care for the cemetery.

Proprietary Funds

Enterprise Funds – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Funds

Agency Fund - The Armory Trust and the Water Tower Trust funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals or other governments. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(3) MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities as well as the proprietary fund financial statements are presented using the economic resource measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

As allowed by GASB Statement No. 20, the City has elected not to apply the FASB statements and interpretations issued after November 30, 1989 to its business-type activities and proprietary funds.

(4) ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE

- a. Cash and Equivalents – The City's cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable.
- c. Due to and Due From Other Funds – Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

- d. Inventory – Materials inventory in the Waste Water and Water utility funds and supplies inventory in the General Fund are recorded at the lower of cost or market using the first-in first-out method of valuing inventory.
- e. Fixed Assets – The accounting and reporting treatment applied to property plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Prior to July 1, 2003, governmental funds' infrastructure asset, the major and local street systems, were not capitalized. These assets have been valued at estimated historical cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	15 – 50 years
Machinery and equipment	4 – 15 years
Infrastructure	20 – 50 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

- f. Restricted Assets – Restricted assets include cash and equivalents which have been restricted by statute, third party requirements or by contract.
- g. Long-Term Debt – The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable and notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

- h. Compensated Absences – The City's policies regarding vacation and sick time permits employees to accumulate earned but unused vacation and sick time. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred.
- i. Deferred Revenues – In the government-wide statements and proprietary fund financial statements deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements deferred revenue is recognized when revenue is unearned or unavailable. The City has reported deferred revenue of \$7,436 and \$962 in the General Fund and Landfill Construction Fund for personal property taxes, \$20,021 in the DDA Fund for amounts due the DDA from other taxing units for undercapture of DDA taxes. These amounts have been deemed measurable, but not currently available.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

j. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate. Proprietary fund equity is classified the same as in the government-wide statements.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(5) REVENUES AND EXPENDITURES/EXPENSES

Revenues

Government-Wide Statements

In the government-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues which do not meet the criteria of program revenues and include revenues such as property taxes, State revenue sharing payments and interest earnings.

Fund Statements

In the governmental fund statements revenues are reported by source, such as federal sources, state sources and taxes. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the City's policy to use restricted resources first.

Expenses/Expenditures

Government-Wide Statements

In the government-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements

In the governmental fund financial statements expenditures are classified by character; current, debt service and capital outlay.

In the proprietary fund financial statements expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities.

Other Financing Sources (Uses)

The transfers of cash between the various City funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

(6) OTHER SIGNIFICANT ACCOUNTING POLICIES

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities, and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to the third Monday in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. The City will hold a public hearing on the proposed budget prior to its final adoption. City Council shall adopt, by resolution, a budget for the next fiscal year no later than the second regular meeting in May.
- c. Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the City Council in June. Individual amendments were material in relation to the original appropriations which were amended.
- d. Encumbrance accounting under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control. Any unexpendable appropriations lapse at the end of the fiscal year.

Property Taxes

Property taxes levied attach as an enforceable lien on property. The City's annual property tax on real and personal property within the City is levied on July 1, payable by September 15, and is based on the taxable valuation of the property on the preceding December 31. Unpaid property taxes become delinquent on March 1, and all delinquent real property taxes are purchased by the County Treasurer. The City bills and collects its own property taxes and also the taxes for the local School District, the Intermediate School District and the County. City property tax revenues are recognized when levied to the extent that they result in current receivables.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – BUDGET AND FUND BALANCE NON-COMPLIANCE

Budget Violations – Public Act 621 of 1978, as amended, requires the adoption of a balanced budget for the General Fund and Special Revenue Funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

- (1) The following funds had an excess of expenditures and other uses over appropriations:

DDA	\$	28,736
Range Street Project		7,633
Central Park Project		239

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE C – CASH AND EQUIVALENTS

City

The composition of cash and equivalents as reported in the government-wide Statement of Net Assets is presented below:

Imprest Cash		\$	80
Deposits:			
Checking accounts	\$	885,487	
Savings accounts		890,957	
Certificates of Deposit		<u>276,426</u>	<u>2,052,870</u>
Total cash and equivalents			<u>\$ 2,052,950</u>

Government-wide Statement of
Net Assets Presentation:

Unrestricted	\$	1,523,628	
Restricted		<u>527,773</u>	\$ 2,051,401
Statement of Fiduciary Net Assets			<u>1,549</u>
Total cash and equivalents			<u>\$ 2,052,950</u>

State statutes authorize the City to deposit and invest in the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE C – CASH AND EQUIVALENTS (continued)

- e. Bankers' acceptance of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 sat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - i. The purchase of securities on a when-issued or delayed delivery basis.
 - ii. The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
 - iii. The limited ability to borrow and pledge a like portion of the portfolios' assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation of 1967, MCL 124.501 to 124.512.
- i. Investments pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, MCL 129.141 to 129.150.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE C – CASH AND EQUIVALENTS (continued)

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

Interest Rate Risk – The City carries no significant interest rate risk as all of its holdings are in bank accounts with a high degree of liquidity.

Credit Risk – The City did not hold any deposits in investments that require credit risk disclosure.

Custodial Credit Risk–Deposits – Custodial credit risk is the risk that in the event of a bank failure the City's deposits may not be returned. At June 30, 2007 the City held \$2,223,299 in bank deposits. Of this amount \$1,801,173 was uninsured and uncollateralized.

Concentration of Credit Risk – The City has no significant concentration of credit risk due to the fact that all deposits are in local financial institutions.

Foreign Currency Risk – The City has no foreign currency risk as it has no deposits in foreign currency.

The City's investment policy is silent in respect to the above risks, however, it does state that, "Safety of the principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio."

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE C – CASH AND EQUIVALENTS (continued)

Cash has been restricted within the listed funds as follows:

Governmental Activities:

General Fund:

PSO fantasy project	\$ 844	
Christmas donation	3,572	
Landfill perpetual care	<u>8,313</u>	
Total General Fund		\$ 12,729

Permanent Fund:

Cemetery Perpetual Care		<u>160,182</u>
Total Governmental Activities		<u>\$ 172,911</u>

Business-Type Activities:

Waste Water Utility:

1999 bond reserve	\$ 163,147
1999 bond and interest redemption	36,519
Bond proceeds	8,331

Water Utility:

Bond proceeds	1,900
FMHA bond reserve	94,892
Jr lien bond and redemption	33,573

Recreation Building:

Donations	<u>16,500</u>
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Total Business-Type Activities	<u>\$ 354,862</u>
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NOTE D – ACCOUNTS RECEIVABLE

Business-Type Activities:

1. Ambulance Fund – The City has established a reserve for uncollectable accounts. The gross amount of the accounts receivable for the Ambulance Fund is \$152,133 and the allowance for uncollectable accounts was \$54,768, leaving a net accounts receivable of \$97,365.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE E – CAPITAL ASSETS

City

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance at July 1, 2006	Additions	Disposals	Balance at June 30, 2007
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 100,330	\$ 25,477	\$ -	\$ 125,807
Capital assets being depreciated:				
Land improvements	47,979	49,886	-	97,865
Buildings	785,265	46,667	-	831,932
Machinery and equipment	523,972	5,952	-	529,924
Vehicles	623,110	38,799	-	661,909
Infrastructure-road system	5,737,819	133,536	-	5,871,355
Total depreciable assets	7,718,145	274,840	-	7,992,985
Total capital assets	7,818,475	300,317	-	8,118,792
Less accumulated depreciation:				
Land improvements	11,995	2,399	-	14,394
Buildings	359,858	18,754	-	378,612
Machinery and equipment	207,490	31,742	-	239,232
Vehicles	160,716	54,711	-	215,427
Infrastructure-road system	2,486,057	229,294	-	2,715,351
Total accumulated depreciation	3,226,116	336,900	-	3,563,016
Net depreciable capital assets	4,492,029	(62,060)	-	4,429,969
Governmental activities capital assets, net	\$ 4,592,359	\$ (36,583)	\$ -	\$ 4,555,776

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE E – CAPITAL ASSETS (continued)

	Balance at July 1, 2006	Additions	Disposals	Balance at June 30, 2007
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 2,139	\$ -	\$ -	\$ 2,139
Capital assets being depreciated:				
Land improvements	58,996	-	-	58,996
Buildings	866,840	21,192	-	888,032
Machinery and equipment	1,156,503	173,418	-	1,329,921
Distribution/collection system	20,851,378	349,155	-	21,200,533
Total depreciable assets	22,933,717	543,765	-	23,477,482
Total capital assets	22,935,856	543,765	-	23,479,621
Less accumulated depreciation:				
Land improvements	24,052	2,043	-	26,095
Buildings	161,126	23,900	-	185,026
Machinery and equipment	746,562	83,088	-	829,650
Distribution/collection system	8,263,782	457,266	-	8,721,048
Total accumulated depreciation	9,195,522	566,297	-	9,761,819
Net depreciable capital assets	13,738,195	(22,532)	-	13,715,663
Business-type activities capital assets, net	\$ 13,740,334	\$ (22,532)	\$ -	\$ 13,717,802

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE E – CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental activities as follows:

Governmental activities:	
General government	\$ 30,541
Public health and safety	23,149
Parks and recreation	3,163
General public works	52,149
Street system	<u>227,898</u>
Total governmental activities depreciation expense	<u>\$ 336,900</u>
Business-type activities:	
Ambulance	\$ 39,678
Recreation building	30,992
Waste water utility	267,651
Water utility	<u>227,976</u>
Total business-type activities depreciation expense	<u>\$ 566,297</u>

The City adopted a capitalization policy that identifies fixed assets as those having a value of \$5,000 or more as of July 1, 2003.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE F – RETIREMENT PLANS

City

MUNICIPAL EMPLOYEE'S RETIREMENT SYSTEM

Plan Description – The City of Manistique participates in a defined benefit noncontributory retirement plan administered by the Municipal Employee's Retirement System (MERS) which covers substantially all full-time employees. MERS is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees. Contributions to the plans include provisions for funding of prior service costs in excess of fund assets where applicable. Benefits vest after ten years of service. The MERS plan also provides death and disability benefits.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851, MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

There are three valuation divisions within the plan which provide different benefit provisions. The General division has adopted benefit B-4, which provides for an annual retirement benefit, payable monthly for life, in an amount equal to the sum of 2.5% of a member's final five-year average compensation. The Police/Fire division has adopted benefit B-4. Under benefit B-4, employees shall receive 2.5% of their five year final compensation, with a maximum benefit of 80% of final average compensation. The Police/Non-Union division has adopted benefit B-4, by which employees shall receive 2.5% of their three-year final compensation, with a maximum benefit of 80% of final average compensation.

The General, Police/Fire and Police/Non-Union divisions have adopted post-retirement adjustment benefit E-2 which provides automatic 2.5% annual non-compounded benefit increases to retiree's and their beneficiaries who retired on or after the effective date of benefit E-2. Increase is limited to increases in the consumers price index.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE F – RETIREMENT PLANS (continued)

Actuarial Accrued Liability – The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2006. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a net long-term investment yield of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2006 actuarial valuation to determine the annual employer contribution amounts. The entry age normal cost actuarial method was used to determine the entries at disclosure.

GASB 25 INFORMATION (AS OF 12/31/06)

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 5,604,240
Terminated employees not yet receiving benefits	1,397
Current Employees:	
Accumulated employee contributions including allocated investment income	29,271
Employer financed	<u>3,699,835</u>
Total actuarial liability	9,334,743
Net assets available for benefits, at actuarial value (market value is \$5,230,597)	<u>5,158,435</u>
Unfunded (overfunded) actuarial accrued liability	<u>\$ 4,176,308</u>

GASB 27 INFORMATION (AS OF 12/31/06)

Fiscal year beginning	July 1, 2008
Annual required contribution (ARC)	\$ 356,652
Amortization factor used	0.054719

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE F – RETIREMENT PLANS (continued)

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2006 were determined using the entry age normal cost actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	\$ 202,507	100%	-
2005	231,330	100%	-
2006	261,587	100%	-

The City was required to contribute \$356,701 for the year ended June 30, 2007. Payments were based on contribution calculations made by MERS.

The City was required to contribute at an actuarially determined rate, which is a percentage of covered payroll as listed below:

Valuation Division	Contribution Percentage				
	2007 *	2006 *	2005 *	2004 *	2003 *
General	26.65%	27.67%	23.55%	16.19%	13.48%
Police/Fire	26.14%	26.08%	24.12%	23.04%	27.18%
Police - Non Union	60.65%	60.45%	57.66%	24.88%	20.39%

* Represents the actuarial required contribution for the fiscal year ended.

Aggregate Accrued Liabilities – Comparative Schedule

Actuarial Valuation Date December 31,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
2004	\$ 4,769,762	\$ 7,954,049	\$ 3,184,287	60%	\$ 944,892	337%
2005	4,932,840	8,671,210	3,738,370	57%	1,002,244	373%
2006	5,158,434	9,334,743	4,176,308	55%	1,173,120	356%

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE F – RETIREMENT PLANS (continued)

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997, 2000 and 2004 valuations. The funding method was changed to entry age normal for the 1993 valuation.

NOTE G – VESTED EMPLOYEE BENEFITS

Substantially all City employees are entitled to certain vacation, sick pay benefits, and compensation time that accrue and vest based on various union and employment agreements. Vacation pay is not subject to accumulations beyond a one-year period. Sick pay accumulations are limited based upon various criteria. Compensated absences in the amount of \$144,639 are reported under governmental activities and \$48,796 is reported under business-type activities in the Statement of Net Assets.

NOTE H – POST-RETIREMENT HEALTH BENEFITS

The City pays health insurance premiums for employees who retire under the terms of employment contracts or City policy, until the retiree reaches age 65 or becomes eligible for Medicare. The insurance premiums are financed on a pay-as-you-go basis and are recorded as expenditures when paid. The City has not recorded a liability in the Statement of Net Assets for future post-employment health care costs. The following is a summary of the post-employment health benefits:

For the year ended June 30,	Annual Cost	Number of Retirees Receiving Benefits
2004	\$ 78,401	10
2005	107,792	13
2006	123,802	13
2007	121,195	12

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE I – LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2007:

Type of Debt	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007	Amounts Due Within One Year
Governmental Activities:					
Note - snowplow trucks	\$ 39,947	\$ -	\$ 39,947	\$ -	\$ -
Note - M-TEC energy	41,534	-	8,740	32,794	8,917
Note - 2005 DPW trucks	15,239	-	15,239	-	-
Note - 2006 dump truck	55,500	-	19,522	35,978	18,549
Note - 2006 snow blower	78,000	-	18,211	59,789	19,110
DDA bonds - 1994	285,000	-	90,000	195,000	95,000
DDA bonds - series II	365,000	-	80,000	285,000	90,000
DDA bonds - 2001	450,000	-	30,000	420,000	30,000
DDA bonds - 2005	465,000	-	150,000	315,000	155,000
Landfill bonds	1,910,000	-	55,000	1,855,000	60,000
Landfill postclosure cost	540,000	-	20,000	520,000	20,000
Compensated absences	118,097	26,542	-	144,639	36,160
 Total governmental long-term debt	 \$ 4,363,317	 \$ 26,542	 \$ 526,659	 \$ 3,863,200	 \$ 532,736
Business-type Activities:					
Note - ambulance garage	\$ 47,000	\$ -	\$ 14,000	\$ 33,000	\$ 14,000
Note - recreation	5,644	-	2,776	2,868	2,868
Note - 2007 recreation	-	60,000	-	60,000	13,933
Bond - 1999 waste water	2,420,000	-	31,000	2,389,000	33,000
Bonds - 1995 water	1,735,000	-	30,000	1,705,000	30,000
Bonds - 2004 water	789,000	-	96,000	693,000	95,000
Compensated absences	28,872	19,924	-	48,796	14,639
 Total business-type long-term debt	 \$ 5,025,516	 \$ 79,924	 \$ 173,776	 \$ 4,931,664	 \$ 203,440

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE I – LONG-TERM DEBT (continued)

Debt service requirements on long-term debt at June 30, 2007 are as follows:

Year Ending June 30,	Governmental Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2008	\$ 46,576	\$ 4,495	\$ 430,000	\$ 146,963
2009	46,372	2,745	455,000	123,461
2010	30,113	793	215,000	105,106
2011	5,500	37	130,000	95,765
2012	-	-	140,000	89,360
2013-2017	-	-	860,000	331,420
2018-2022	-	-	840,000	128,481
	<u>\$ 128,561</u>	<u>\$ 8,070</u>	<u>\$ 3,070,000</u>	<u>\$ 1,020,556</u>

Year Ending June 30,	Business-type Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2008	\$ 30,801	\$ 5,012	\$ 158,000	\$ 207,338
2009	29,623	3,511	164,000	201,630
2010	19,347	1,975	166,000	195,369
2011	16,097	806	167,000	188,827
2012	-	-	169,000	182,027
2013-2017	-	-	656,000	811,613
2018-2022	-	-	549,000	678,489
2023-2027	-	-	681,000	539,416
2028-2032	-	-	847,000	365,195
2033-2037	-	-	837,000	164,904
2038-2042	-	-	393,000	27,383
	<u>\$ 95,868</u>	<u>\$ 11,304</u>	<u>\$ 4,787,000</u>	<u>\$ 3,562,191</u>

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE I – LONG-TERM DEBT (continued)

Governmental Activities:

As of June 30, 2007, the governmental activities long-term debt consisted of the following:

Notes Payable:

Note payable issued January 25, 2003 for \$152,487 at 3.24% interest for the purchase of two snowplow trucks. The note calls for 4 annual principal and interest payments of \$41,259.

During the year ended June 30, 2004, the City signed an 84-month note for energy improvements made to City facilities. The note calls for monthly principal and interest payments of \$791 and bears an interest rate of 2.0%.

During the year ended June 30, 2005, the City signed a 48-month note for the purchase of two 2005 DPW trucks. The note calls for four annual payments of \$5,417 and bears an interest rate of 3.28%. The City paid off this note in 2007.

During the year ended June 30, 2006, the City signed a 36 month note for the purchase of a 2005 tandem axle dump truck. The note calls for three annual payments \$20,165 and bears an interest rate of 4.49%.

During the year ended June 30, 2006, the City signed a 48 month note for the purchase of a snow blower. The note calls for four annual payments \$21,415 and bears an interest rate of 3.855%.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE I – LONG-TERM DEBT (continued)

Bonds Payable:

In April 1994 the Downtown Development Authority issued general obligation limited tax bonds for the purpose of making public improvements to the downtown development area. The bonds were issued in the face amount of \$995,000 and bear an interest rate which varies from 5.3% to 6.0% and have a final maturity of May 2009.

In November 1994 the Downtown Development Authority issued Series II general obligation limited tax bonds for \$995,000 with a variable interest rate ranging from 6.5% to 7.1% and has a final maturity of November 2009. The purpose of the bond issue was to complete the downtown improvement project, which was started with the April 1994 DDA bond issue.

Bonds were issued August 2001 in the name of the Downtown Development Authority for \$550,000 at an interest rate of 7.0% through 2003 and 5.0% thereafter for the purpose of public improvements in the downtown development area. The bonds have final maturity of September 2016.

Bonds were issued September 2005 in the name of the Downtown Development Authority for \$465,000 at an interest rate of 3.54% for the purpose of public improvements in the downtown development area. The bonds have final maturity of October 2008.

Bonds were issued March 2002 for \$2,055,000 for the purpose of closing the City landfill. The City has issued a separate levy for the purpose of making the future debt payments. The bonds call for annual principal payments and semi-annual interest payments and bear an interest rate ranging from 4.25% to 5.05% and have a final maturity of May 2022.

As part of closing the City's landfill, the Michigan Department of Environmental Quality (MDEQ) required the site to be monitored to ensure the site is compliant with the various environmental requirements of the MDEQ. Because of this requirement, the City has estimated the cost of the future monitoring to be \$20,000 per year for a period of 30 years beginning in the year 2003.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE I – LONG-TERM DEBT (continued)

Business-type Activities:

As of June 30, 2007, the long-term debt of business-type activities consists of the following:

Note Payable:

During the year ended June 30, 2002, the City signed a 108-month note for the purchase/construction of an ambulance garage. The note calls for annual principal and semi-annual interest payments and bears an interest rate of 5.24%.

The City issued a note to the Manistique Hockey Association for improvements made at the recreation building in the amount of \$8,330. The note calls for three annual payments of \$2,919 and bears an interest rate of 3.28%.

During the year ended June 30, 2007, the City issued a note for improvements at the recreation building in the amount of \$60,000. The note calls for four annual principal and interest payments of \$16,903 and bears an interest rate of 4.95% with a final maturity date of May 2011.

Bonds Payable:

1999 Waste Water System Bond - Waste water system revenue bond, original issue dated September 28, 1999 for \$2,581,000 with an interest rate of 4.5%. Principal amounts are due in varying annual installments each August 1st beginning in 2000 and ending in 2039. Interest payments are due semi-annually each August 1st and February 1st. Principal installments of this bond are subject to prepayment prior to maturity, in inverse chronological order, at the Issuer's option, on any interest payment date on or after August 1, 2000, at par and accrued interest to the date fixed for prepayment. The purpose of the bond was to construct certain additions, renovations, expansions and improvements to the waste water system.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE I – LONG-TERM DEBT (continued)

1995 Water System Bond - Water system junior lien revenue bond, series 1995A, original dated June 9, 1995 for \$1,900,000 with an interest rate of 4.5%. Bonds are due serially from June 1, 1996 until June 1, 2035. Interest is payable June 1 and December 1. Principal installments of this bond are subject to prepayment prior to maturity, in inverse chronological order, at the Issuer's option, on any interest payment date on or after December 1, 1996, at par and accrued interest to the date fixed for prepayment. The purpose of the bond is to construct improvements to the water system.

2004 Water System Bonds – On June 1, 2004 the City issued water system limited tax general obligation bond refunding series 2004 for the purpose of retiring the 1975 water system bonds. The bonds were issued to the State Savings Bank, Manistique, Michigan in the amount of \$985,000 and have a variable interest rate of 1.9% to 4.55%. Interest payments are due and payable each December 1 and June 1. Principal payments are due each December 1 with the final principal payment due December 1, 2014.

NOTE J – INTERFUND BALANCES AND TRANSFERS

Individual fund interfund receivables and payable balances at June 30, 2007 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
		Major Street Fund	\$ 4,413
		Local Street Fund	2,203
		DDA	1,064
		Landfill Construction	186
		Ambulance	5,080
		Waste Water System	4,772
		Water System	<u>17,069</u>
General Fund	<u>\$ 34,787</u>	Subtotal	<u>34,787</u>
Waste Water Sytem	<u>225,363</u>	General Fund	<u>225,363</u>
Total	<u><u>\$ 260,150</u></u>	Total	<u><u>\$ 260,150</u></u>

Interfund receivables/payables represent temporary advances between funds for goods or services, or to cover short-term cash flow requirements.

CITY OF MANISTIQUE, MICHIGAN
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE J – INTERFUND BALANCES AND TRANSFERS (continued)

Interfund transfers for the year ended June 30, 2007 were as follows:

	Transfers In		Transfers Out
Recreation Building	\$ 5,000	General Fund	\$ 5,000
DDA Debt Service	434,104		
Range Street Project	85,000		
CDBG Downtown Project	166,509		
Waste Water System	60,000		
Subtotal	745,613	DDA	745,613
Local Street	25,000	Major Street	25,000
Total	\$ 775,613	Total	\$ 775,613

The primary purpose of interfund transfers were for debt service requirements for various DDA projects, the DDA's local match for the CDBG downtown project as well as the Range Street project, the reallocation of ACT 51 funds between Local and Major Street funds and an operating appropriation from the General Fund to the Recreation fund.

NOTE K – RESTRICTED NET ASSETS

In the Statement of Net Assets, for governmental activities, net assets has been restricted in the amount of \$108 which represents donations with use of those funds for a specific purpose. Also an amount of \$380,505 has been restricted in the governmental activities column for net assets which are restricted for the sole purpose of maintaining and monitoring the landfill. Net assets have been restricted and are nonexpendable in the amount of \$160,182 and represent the portion of net asset, which may not be spent on cemetery care. The interest earnings from the \$160,182 may be used to provide care for the City's cemeteries.

Net assets restricted by enabling legislation amounted to \$540,687, which represents the landfill and cemetery care funds listed above.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE L – RISK MANAGEMENT

City

The City is exposed to various risks of loss to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE M – CONTINGENT LIABILITIES

The City has received financial assistance from federal and state agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the City. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements or on the overall financial position of the City as of June 30, 2007.

NOTE N – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The City of Manistique, as licensee, previously operated a landfill on land owned by the State of Michigan. State and federal laws and regulations require that a final cover be placed on the landfill and that certain maintenance and monitoring functions be performed at the landfill site for thirty years after closure.

During the year ended June 30, 2002, the City issued bonds in the amount of \$2,055,000 for the purpose of paying a portion of the cost of the landfill closure and acquiring and installing equipment for ongoing landfill monitoring and related structures and equipment necessary to comply with Michigan Department of Environmental Quality and court ordered requirements.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE N – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS
(continued)

The City has also recognized a liability in the amount of \$600,000 in the financial statements for estimated postclosure monitoring costs. These costs were based on an estimated amount of \$20,000 per year for 30 years, with 26 years of monitoring remaining, leaving a balance of \$520,000 as of June 30, 2007. These estimates could change in the future based upon changes in state and federal laws and regulations, inflation or deflation and technology. Since December 1996, three mills are levied annually for landfill closure and postclosure care costs. Proceeds from this levy will be used to cover the bond payment and future maintenance and monitoring expenses.

CITY OF MANISTIQUE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
REVENUES:				
Federal sources	\$ -	\$ 50,917	\$ 48,917	\$ (2,000)
State sources	461,299	458,156	451,942	(6,214)
Local sources	19,800	22,102	24,484	2,382
Taxes	735,066	754,875	764,144	9,269
Recreation	34,500	36,400	38,935	2,535
Public safety	900	1,725	1,725	-
Charges for services	452,800	493,290	503,272	9,982
Equipment rental	210,000	228,000	239,985	11,985
Interest income	7,200	17,000	18,838	1,838
Miscellaneous	54,145	96,053	75,723	(20,330)
Total revenues	\$ 1,975,710	\$ 2,158,518	\$ 2,167,965	\$ 9,447
EXPENDITURES:				
General government:				
City council	\$ 11,900	\$ 11,898	\$ 10,115	\$ 1,783
Community promotion	9,350	8,214	7,687	527
City manager	86,493	101,593	97,573	4,020
General administration	13,580	20,970	21,533	(563)
Office assistant	87,360	105,025	106,335	(1,310)
Elections	10,257	8,719	8,372	347
City assessor	42,050	45,671	44,468	1,203
City attorney	26,000	27,000	22,100	4,900
City clerk	62,513	72,975	70,147	2,828
Board of review	800	720	687	33
City treasurer	23,640	21,462	19,640	1,822
Building and grounds	76,073	86,218	69,098	17,120
Cemeteries	63,100	92,800	90,186	2,614
Planning	1,925	2,457	2,640	(183)
Public health and safety:				
Public safety	689,547	707,026	693,913	13,113
Parks and recreation:				
Parks	18,000	12,111	9,633	2,478
Recreation	-	27,797	27,601	196
Marina	40,050	38,250	36,410	1,840
West side boat launch	-	11,000	10,315	685
General public works:				
Department of public works	352,573	369,079	342,878	26,201
Street lighting	41,000	40,000	41,267	(1,267)
Capital outlay	19,100	49,845	69,552	(19,707)
Debt service	88,256	88,312	100,887	(12,575)
Other	202,100	201,041	204,386	(3,345)
Total expenditures	1,965,667	2,150,183	2,107,423	42,760
Excess revenues (expenditures)	10,043	8,335	60,542	52,207
OTHER FINANCING SOURCES (USES)				
Transfer out	(5,000)	(5,000)	(5,000)	-
Net changes in fund balances	5,043	3,335	55,542	52,207
Fund balances - beginning	224,858	224,858	224,858	-
Fund balances - ending	\$ 229,901	\$ 228,193	\$ 280,400	\$ 52,207

CITY OF MANISTIQUE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR STREET FUND
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
State sources	\$ 253,197	\$ 344,527	\$ 345,856	\$ 1,329
Interest income	2,800	5,000	5,081	81
Total revenues	255,997	349,527	350,937	1,410
EXPENDITURES:				
Street system	282,965	330,938	288,320	42,618
Excess revenues (expenditures)	(26,968)	18,589	62,617	44,028
OTHER FINANCING SOURCES (USES)				
Transfer out	(25,000)	(25,000)	(25,000)	-
Net changes in fund balances	(51,968)	(6,411)	37,617	44,028
Fund balances - beginning	147,908	147,908	147,908	-
Fund balances - ending	\$ 95,940	\$ 141,497	\$ 185,525	\$ 44,028

CITY OF MANISTIQUE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
LOCAL STREET FUND
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
State sources	\$ 75,000	\$ 75,000	\$ 86,024	\$ 11,024
Interest income	900	2,400	2,492	92
Total revenues	75,900	77,400	88,516	11,116
EXPENDITURES:				
Street system	100,565	126,566	119,663	6,903
Excess revenues (expenditures)	(24,665)	(49,166)	(31,147)	18,019
OTHER FINANCING SOURCES (USES)				
Transfer in	25,000	25,000	25,000	-
Net changes in fund balances	335	(24,166)	(6,147)	18,019
Fund balances - beginning	61,389	61,389	61,389	-
Fund balances - ending	\$ 61,724	\$ 37,223	\$ 55,242	\$ 18,019

CITY OF MANISTIQUE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
DDA FUND
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
REVENUES:				
Taxes	\$ 725,000	\$ 759,180	\$ 759,749	\$ 569
Interest income	4,000	14,200	16,022	1,822
Miscellaneous	5,000	5,000	46,402	41,402
Total revenues	734,000	778,380	822,173	43,793
EXPENDITURES:				
Economic development	194,050	423,335	188,194	235,141
Capital outlay	170,000	50,000	62,368	(12,368)
Total expenditures	364,050	473,335	250,562	222,773
Excess revenues (expenditures)	369,950	305,045	571,611	266,566
OTHER FINANCING SOURCES (USES)				
Transfer out	(494,000)	(494,104)	(745,613)	(251,509)
Net changes in fund balances	(124,050)	(189,059)	(174,002)	15,057
Fund balances - beginning	272,210	272,210	272,210	-
Fund balances - ending	\$ 148,160	\$ 83,151	\$ 98,208	\$ 15,057

CITY OF MANISTIQUE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
DEBT SERVICE
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:	\$ -	\$ -	\$ -	\$ -
EXPENDITURES:				
Debt service	434,000	434,104	434,104	-
Excess revenues (expenditures)	(434,000)	(434,104)	(434,104)	-
OTHER FINANCING SOURCES (USES)				
Transfer in	434,000	434,104	434,104	-
Total other financing sources (uses)	434,000	434,104	434,104	-
Net changes in fund balances	-	-	-	-
Fund balances - beginning	-	-	-	-
Fund balances - ending	\$ -	\$ -	\$ -	\$ -

CITY OF MANISTIQUE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2007

	Capital Project Funds			
	Central Park Project	Range Street Project	Lakeside Road Project	Landfill Construction
ASSETS				
Cash and equivalents:				
Restricted	\$ -	\$ -	\$ -	\$ -
Unrestricted	15,328	37,872	(11,944)	358,341
Receivables:				
Delinquent taxes	-	-	-	962
Due from other governmental units	-	-	225,000	14,037
Total assets	<u>\$ 15,328</u>	<u>\$ 37,872</u>	<u>\$ 213,056</u>	<u>\$ 373,340</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 7,505	\$ 8,028	\$ -
Due to other funds	-	-	-	186
Deferred revenue	-	-	-	962
Total liabilities	<u>-</u>	<u>7,505</u>	<u>8,028</u>	<u>1,148</u>
Fund balances:				
Reserved for:				
Cemetery perpetual care	-	-	-	-
Unreserved, undesignated	15,328	30,367	205,028	372,192
Total fund balances	<u>15,328</u>	<u>30,367</u>	<u>205,028</u>	<u>372,192</u>
Total liabilities and fund balances	<u>\$ 15,328</u>	<u>\$ 37,872</u>	<u>\$ 213,056</u>	<u>\$ 373,340</u>

See accompanying notes to financial statements.

<u>Capital Project Fund</u>	<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>CDBG Downtown Project</u>	<u>Cemetery Perpetual Care</u>	
\$ -	\$ 160,182	\$ 160,182
-	-	399,597
-	-	962
-	-	239,037
<u>\$ -</u>	<u>\$ 160,182</u>	<u>\$ 799,778</u>
\$ -	\$ -	\$ 15,533
-	-	186
-	-	962
-	-	16,681
-	160,182	160,182
-	-	622,915
-	160,182	783,097
<u>\$ -</u>	<u>\$ 160,182</u>	<u>\$ 799,778</u>

CITY OF MANISTIQUE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007

	Capital Project Funds			
	Central Park Project	Range Street Project	Lakeside Road Project	Landfill Construction
REVENUES:				
State sources	\$ -	\$ -	\$ 225,000	\$ -
Local sources	66,767	-	-	-
Taxes	-	-	-	184,449
Interest income	-	-	-	11,468
Miscellaneous	-	-	-	-
Total revenues	<u>66,767</u>	<u>-</u>	<u>225,000</u>	<u>195,917</u>
EXPENDITURES:				
Sanitary landfill	-	-	-	39,191
Capital outlay	51,439	54,633	19,972	3,048
Debt service:				
Principal	-	-	-	55,000
Interest and other charges	-	-	-	89,675
Total expenditures	<u>51,439</u>	<u>54,633</u>	<u>19,972</u>	<u>186,914</u>
Excess revenues (expenditures)	15,328	(54,633)	205,028	9,003
OTHER FINANCING SOURCES (USES):				
Transfers in	-	85,000	-	-
Net changes in fund balances	15,328	30,367	205,028	9,003
Fund balances - beginning	-	-	-	363,189
Fund balances - ending	<u>\$ 15,328</u>	<u>\$ 30,367</u>	<u>\$ 205,028</u>	<u>\$ 372,192</u>

See accompanying notes to financial statements.

Capital Project Fund	Permanent Fund	Total Nonmajor Governmental Funds
CDBG Downtown Project	Cemetery Perpetual Care	
\$ -	\$ -	\$ 225,000
-	-	66,767
-	-	184,449
-	-	11,468
-	1,200	1,200
-	1,200	488,884
-	-	39,191
166,509	-	295,601
-	-	55,000
-	-	89,675
166,509	-	479,467
(166,509)	1,200	9,417
166,509	-	251,509
-	1,200	260,926
-	158,982	522,171
\$ -	\$ 160,182	\$ 783,097



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Laura L. Schwalbach, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members
of the City Council
City of Manistique
Manistique, MI 49854

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Manistique, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the City of Manistique, Michigan's basic financial statements and have issued our report thereon dated October 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Manistique, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Manistique, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Manistique, Michigan's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Manistique, Michigan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Manistique, Michigan's financial statements that is more than inconsequential will not be prevented or detected by the City of Manistique, Michigan's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Manistique, Michigan's internal control.

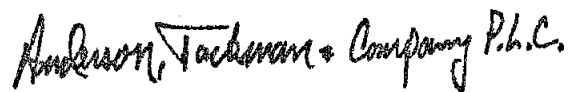
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Manistique, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of City of Manistique, Michigan, in a separate letter dated October 31, 2007.

This report is intended solely for the information and use of management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

October 31, 2007

CITY OF MANISTIQUE, MICHIGAN

REPORT TO MANAGEMENT

JUNE 30, 2007



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
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Kevin C. Pascoe, CPA
Laura L. Schwalbach, CPA

REPORT TO MANAGEMENT

To the Honorable Mayor and Members
of the City Council
City of Manistique

Audit Committee Communications

We have audited the financial statements of the City of Manistique, Michigan for the year ended June 30, 2007, and have issued our reports thereon dated October 31, 2007. Professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated July 23, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the City of Manistique. Management has the responsibility for adopting sound accounting policies for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

To the Honorable Mayor and Members
of the City Council
City of Manistique
Page 2

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Manistique, Michigan are described in Note A of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the City of Manistique, Michigan during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance and consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were: the useful lives of fixed assets.

Management's estimates of the useful lives of fixed assets are based on its knowledge of the assets and past experience with similar assets. We evaluated the key factors and assumptions used to develop the useful lives in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgement, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Manistique's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgement, none of the adjustments we proposed, whether recorded or unrecorded by the City of Manistique, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Manistique's financial reporting process.

To the Honorable Mayor and Members
of the City Council
City of Manistique
Page 3

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Manistique's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Comments and Recommendations

In planning and performing our audit of the financial statements of the City of Manistique, Michigan for the year ended June 30, 2007, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

To the Honorable Mayor and Members
of the City Council
City of Manistique
Page 4

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and/or operating efficiencies. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated October 31, 2007, on the financial statements of the City of Manistique, Michigan.

We have already discussed many of these comments and recommendations with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the use of City Council and management of the City of Manistique and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company P.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants

October 31, 2007

CITY OF MANISTIQUE, MICHIGAN
COMMENTS AND RECOMMENDATIONS

June 30, 2007

Water and Sewer Bond Reserves:

Comment:

It appears that in the Sewer Fund, the bond requirements for funding the operation and maintenance fund and the repair, replacement and improvement fund appear to be inadequately funded. In the Water Fund, the bond requirements for funding the operation and maintenance fund and the bond reserve fund appear to be inadequately funded.

Recommendation:

The City should review the bond requirements for funding these accounts and adjust their utility rates so these funds can be adequately funded in accordance with the bond agreements.

Management Response:

The City Council has recently approved a rate increase that will help with this funding.

Landfill Post Closure Liability Estimate

Comment:

The liability recorded in the City's financial statements for the landfill post closure monitoring costs is based upon an estimate provided by the City's engineering firm which was completed in 2004.

Recommendation:

The City should consider having this estimate reassessed by an engineering firm to ensure that the estimate is still valid, based upon current economic conditions and DEQ requirements.

Management Response:

The City will review this issue.

CITY OF MANISTIQUE, MICHIGAN
COMMENTS AND RECOMMENDATIONS

June 30, 2007

Timely Distribution of Tax Collections

Comment:

During our audit, we noted instances where the City did not distribute tax collections for other local units of government within ten business days after the first and fifteenth day of each month as required by the General Property Tax Act.

Recommendation:

Taxes collected by the City should be remitted to the other taxing units as required by the General Property Tax Act.

Management Response:

The City was working with the County on a settlement dispute and next year we will make a concerted effort to see that the settlement happens in a timely fashion.

Tax Rate Request Form

Comment:

During our audit, we noted the tax rate request form filed with the Michigan Department of Treasury had the incorrect taxable value listed for the City.

Recommendation:

The tax rate request form should be reviewed for accuracy by the City Assessor and the City Treasurer Taxes prior to it being distributed.

Management Response:

The City Manager will review this with the City Assessor.

CITY OF MANISTIQUE, MICHIGAN
COMMENTS AND RECOMMENDATIONS

June 30, 2007

Budget Non-Compliance

Comment:

Public Act 621 of 1978, as amended, requires the adoption of a balanced budget for the General Fund and Special Revenue Funds as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

- (1) The following funds had an excess of expenditures and other uses over appropriations:

DDA	\$ 28,736
Range Street Project	7,633
Central Park Project	239

Recommendation:

We recommend that budgets be amended as necessary to prevent expenditures from exceeding appropriations.

Management Response:

End of year expenditures exceeded our amendment estimates, therefore causing the excess of expenditures over appropriations. We will make a concerted effort to see that this does not happen next year.

CITY OF MANISTIQUE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

June 30, 2007

GASB Statement 45 – Accounting and Financial Reporting By Employers for Post-Employment Benefits Other Than Pensions

Comment:

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is being implemented in three phases, with the City of Manistique being required to implement the Statement for the year ended June 30, 2010. GASB Statement 45 is going to impact the future accounting of post-employment health insurance costs as it relates to the amount the City will be required to pay for these benefits. Beginning July 1, 2009, the City will be required by U.S. governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used, as part of Statement 45, are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The City Council as well as City Management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

Management Response:

The City will certainly address this issue and prepare for this future requirement.